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SUBJECT: DPM ON OIL, SOFA AND TUWAITHA

Classified By: Ambassador Ryan Crocker for Reasons 1.4 (b), (d) and (h)

¶1. (S) SUMMARY: DPM Barham Salih on February 25 urged Under Secretary Jeffrey to sustain USG engagement to help Iraq pass

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the hydrocarbon framework legislation, and while he agreed with Ambassador Loftis on the need to move quickly on a new strategic relationship and status of forces agreement, warned that Iran may hope to engineer an "October surprise" to impact the U.S. elections. Ambassador Ries provided the DPM an update on the Tuwaitha nuclear material sale. END SUMMARY.

Hydrocarbon Framework Law - various scenarios

¶2. (C) In a meeting on February 25 with U/S Reuben Jeffrey, Ambassador Bob Loftis and Ambassador Crocker, Deputy Prime Minister Barham Salih "on behalf of President Talabani" urged sustained USG involvement to nudge the differing parties to agreement on the hydrocarbon legislation. He said 2-3 different scenarios are possible, arguing that the revenue sharing portion is key and, if dealt with first, might break the impasse on the hydrocarbon framework law, with the February 2007 draft as the basis for agreement (COMMENT: This conflicts with his assertion in February 2008 that the laws must be passed together. END COMMENT). He said that he is getting mixed signals from KRG officials about how to deal with the new contracts the KRG has signed with international oil companies, but the February draft can be moved politically. He added that Oil Minister Shahristani continues to be an obstacle because he does not like the oil law and thinks he can use existing laws. The technical services contracts sought by the Oil Minister are very limited in scope, and the Minister's development plan at best is no better than the buybacks that the Iranians use.

¶3. (C) The DPM evaded a question about PM Maliki's position, noting the PM is his boss, but observed that Maliki listens to Shahristani but understands the fight over oil is a political struggle. Under Secretary Jeffrey asked about linkages between the oil and Article 140 issues. Salih said no linkage could be explicit, because the two were separate matters and had to stand on their own merits. The 140 process was under way, with UN assistance, and should not be tampered with. That said, Salih acknowledged that, in the context of senior leadership contacts, there could very well be informal discussions (Comment: his point appeared to be

that, even if there was no explicit linkage, it would not be politically practical for some parties to always prevail, and others to always lose, on the issues of greatest importance to them. End Comment.)

¶4. (C) Another scenario that the DPM floated would be to have the issue elevated to the Executive Council, because VP Tariq Hashimi needs to be involved, but warned that the political climate generally is poisonous. On timing, the DPM asserted that doing the revenue sharing law first would not be perceived as letting everyone off the hook on the framework law. He acknowledged that the law to re-establish the Iraq National Oil Company would have to be part of the equation to transform the industry from state-run to private sector, and Iraq will not attract much foreign investment without the framework law. He added that Iraq's priority now is to deal with the Turkish border incursion, and asked the Ambassador for any updates about Turkish intentions. When PM Nechirvan Barzani returns to Baghdad, the Executive Council scenario can begin, he suggested. He added that Nechirvan is waiting for Maliki to return to Iraq.

#### Strategic Relationship

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¶5. (S) Ambassador Loftis explained the two components of normalizing USG-Iraqi relations: a Strategic Framework document based on the Declaration of Principles (with political/economic/security/cultural elements) and a Status of Forces Agreement (SOFA) that includes temporary provisions for ongoing military operations. The DPM said US-Iraq relations are crucial, but aligning the political blocs will be treacherous. Some in the GOI want something more than a traditional SOFA, but the blocs will make achieving that difficult even though key players recognize it is needed. The GOI wants to be helpful to the USG, because Iraq officials are following the debate in the U.S. and recognize it is an issue for us as well. He agreed on the need to move quickly, and although it will not be a treaty, the PM has already made a political commitment for Iraq to seek approval from the Council of Representatives.

¶6. (S) The DPM remarked that Iran is very concerned about the SOFA, and is already raising arguments of the legality of Iraq entering into such an agreement with the U.S. in light of UN Chapter VII. He expects Iran will try to extract some political benefit from it, and warned that Iran may try to engage in an "October surprise" to impact the U.S. elections.

In a not-so-subtle aside, he inquired about USG analysis of the multiple rockets that had struck the IZ a few days ago.

¶7. (C) The DPM asked about the economic component of the Strategic Relationship, noting it might make the package more attractive. Ambassador Ries remarked the Dialogue on Economic Cooperation, occurring February 27-28, would go a long way to define the future USG role in Iraq. The DPM said he might have to miss the latter part of the DEC, but agreed on the urgency to conclude agreements quickly.

#### Tuwaitha Nuclear Material

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¶8. (S) Ambassador Ries reported that two bids had been made for the purchase of Iraqi Uranium yellowcake, and the higher offer is from the Canadian bidder. He said Minister of Science and Technology Minister Fahmi would propose accepting the Canadian offer at the next Council of Ministers meeting. The USG is asking for at least USD 14 million for cost-sharing, USG packaging and transportation expenses. Ambassador Crocker urged the DPM to convince the Cabinet to accept the Canadian offer, since AREVA has indicated if it makes an offer, it will not do so until mid-March, the price of the Canadian offer expires on February 29, and the market price is steadily going down.